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PP RUEHCHI RUEHDT RUEHHM RUEHNH  
DE RUEHPF #0370/01 1550917  
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FM AMEMBASSY PHNOM PENH  
TO RUEHC/SECSTATE WASHDC PRIORITY 0780  
INFO RUEHC/SECSTATE WASHDC PRIORITY 0781  
RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHHM/AMCONSUL HO CHI MINH 0150  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC

UNCLAS SECTION 01 OF 04 PHNOM PENH 000370

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HO CHI MINH CITY FOR FAS--WADE AND RIEDEL

E.O. 12958: N/A  
TAGS: [EAGR](#) [EINV](#) [ETRD](#) [EAID](#) [CB](#)  
SUBJECT: CORRECTED COPY: U.S. COMPANIES EYE OPPORTUNITIES IN  
CAMBODIAN AGRICULTURE

REFS: A) PHNOM PENH 276  
B) PHNOM PENH 306  
C) PHNOM PENH 285

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SENSITIVE BUT UNCLASSIFIED. PROPRIETARY INFORMATION.

11. (SBU) SUMMARY: As the effects of the global economic crisis hit Cambodia's other important growth sectors, the government is pinning its hopes on growth in the expanding agriculture sector to shelter Cambodians from the global downturn. In an effort to support the government's growth initiatives while enhancing U.S. commercial interests, the Ambassador led a delegation of U.S. companies in a meeting with officials of the Cambodian Ministry of Agriculture, Forestry, and Fisheries (MAFF) to discuss Cambodia's interest in American Ag-sector products. Most of the companies are relatively new to Cambodia and have complained of potential technical barriers to trade. The meeting was all the more urgent as Cargill recently announced its withdrawal from Cambodia ostensibly due to economic conditions, but likely due in part to corruption-related issues within the government. END SUMMARY.

#### Cambodia's Important Agriculture Sector

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12. (U) For years analysts have touted Cambodia's agriculture sector as the most obvious engine of growth for its economy. An estimated 80 percent of Cambodia's population lives in rural areas, and an estimated 58 percent directly participate in the agriculture sector, which comprises nearly 35 percent of GDP. The sector has recently experienced steady growth rates, as high as 15 percent in 2005, and has become increasingly important as Cambodia's other industries face sharp declines due to the global economic slowdown (Ref A). However, Cambodia's agriculture sector remains relatively primitive compared to large neighboring countries, and possesses great potential for growth.

#### Rice is King

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13. (U) Rice occupies a place of pride in the Cambodian psyche, and is planted in over 85 percent of all cultivated area. Prime Minister Hun Sen has spoken optimistically of his vision for Cambodia to become the world's leading rice exporter. Agriculture Minister Chan Sarun forecasts that Cambodia will export eight million tons of rice annually by 2015, a dramatic improvement from the three million tons currently expected by the government for this year, which would eventually place Cambodia very close to Thailand, the world's leading rice exporter, which currently exports 9.5

million tons annually. [NOTE: While national rice production is in surplus, deficits exist throughout the country where farmers cannot produce enough for their own needs, as clearly demonstrated during the global rice crisis in late 2007/early 2008 (Ref B) and recent increases in the already high malnutrition numbers. END NOTE]. The Royal Government of Cambodia (RGC) hopes to continue to increase production by utilizing better seeds, fertilizer, and planting techniques, and by bringing more land under cultivation with the expansion of irrigation systems. According to the UN Food and Agriculture Organization (FAO), only 16 percent of Cambodia's rice fields are irrigated, but these fields account for 40 percent of production. Expansion of irrigation in cultivated areas will also allow for double-cropping, which remains relatively rare in Cambodia despite the widespread practice in neighboring countries.

#### Cassava, Corn, and Rubber Cultivation Increasing Rapidly

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14. (U) While rice remains the crop of choice, other crops are quickly catching on. The United Nations Development Program (UNDP) is helping Cambodia to diversify its agricultural production base and has identified cassava, rubber, corn, fishery products, cashew nuts, soybeans, livestock, silk, fruits, and vegetables as industries with potential. Cassava has quickly become Cambodia's second most popular crop after rice. According to MAFF statistics, the 2008 cassava yield exceeded three million tons, a substantial increase from slightly over 140,000 tons in 2001. Two processing facilities have been established in Phnom Penh and Kampong Cham with capacity to process one million tons of cassava, leaving two million tons for export.

15. (U) Corn follows cassava as the third most popular crop, nearly 80 percent of which is produced near the borders with Thailand, with the rest in provinces bordering Vietnam. According to official MAFF statistics, Cambodia has over 160,000 hectares of land under corn

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cultivation, and production is estimated at 612,000 tons in 2008, more than 600 times 1999 production.

16. (U) Rubber production is also quickly expanding, with nearly 108,000 hectares cultivated in 2008, up 31 percent from 2007. The government hopes to have 150,000 hectares of rubber cultivated by 2015. The Cambodian rubber industry recently achieved a major milestone through recognition of Cambodian certification by the International Rubber Association, validating the quality of Cambodian rubber to international buyers. This recognition is expected to increase the value of Cambodian rubber exports, making rubber an increasingly attractive investment for farmers or foreign investors. Seizing this opportunity, the Khao Chuly Group, a diversified Cambodian business conglomerate which also distributes GE industrial products in Cambodia, recently signed a deal with French company Socfin to invest USD 100 million to plant 20,000 hectares of rubber trees by 2010 through economic land concessions granted by the government. [NOTE: At least one of Khao Chuly's concessions has generated controversy at the provincial level. For further information on land concessions see Ref C. END NOTE].

#### U.S. Companies may be able to Transform Agriculture

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17. (U) MAFF Secretary of State Chan Tong Yves told a U.S. agriculture delegation, including representatives of U.S. companies Dupont, Fort Dodge Animal Health, General Electric, John Deere and Monsanto, that "agriculture is the backbone of the economy which needs to be strong in order to support the rest of the body." He conceded that agriculture is Cambodia's "social safety net" that serves as a means of livelihood for those who cannot find work in the cities, a thought reflected in Prime Minister Hun Sen's calls for unemployed urban workers to return to agriculture in the face of job losses caused by the global economic crisis. According to Chan Tong Yves, Cambodia's agriculture strategy seeks to reduce poverty and develop Cambodia's export capacity by focusing on improving productivity and diversifying production.

18. (U) Analysts agree that American products have the potential to

improve significantly Cambodian agricultural diversity and productivity by providing better inputs and practices. Despite years of high economic growth in Cambodia, many U.S. companies only recently have become interested in opportunities here, and U.S. agriculture companies have begun to explore opportunities in the Cambodian market.

¶9. (SBU) Five U.S. companies participated in an Embassy-led initiative to promote greater American engagement in Cambodia's agriculture sector. All of the participants in the MAFF meeting were new to Cambodia's agriculture sector and exploring opportunities, except for John Deere, which has been distributed in Cambodia for many years. General Electric and Dupont opened offices in Cambodia within the last year. Fort Dodge Animal Health, a division of Wyeth, and Monsanto executives flew in from regional locations specifically to attend the meeting and explore opportunities for further engagement in the agriculture sector.

¶10. (SBU) Dupont and Monsanto are promoting hybrid corn seeds, and weed and insect control. Their hybrid seeds can increase corn yields up to four times over conventional seeds, and they both see great promise for increased cultivation of corn. Secretary of State Chan Tong Yves suggested their herbicides and pesticides be used on Cambodia's rubber plantations. Fort Dodge Animal Health, the largest vaccine seller in North America, promotes vaccines; they foresee the small-holder Cambodian livestock industry intensifying in the coming years. John Deere distributes tractors in Cambodia that they hope will displace the water buffalo as a more efficient means to till the land. GE hopes to introduce their biomass/biogas generators that can produce electricity with organic waste. GE's Alfred Buchner said Cambodia was a veritable "gold mine" because of the prevalence of unutilized agricultural waste that can be transformed into much needed electricity to power village homes, producing a byproduct that can be reintroduced into the fields.

#### U.S. Participation Limited by Corruption

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¶11. (SBU) Cambodia suffers from endemic corruption, a major barrier for many American Companies. While the MAFF meeting was intended to provide a formal introduction by the U.S. Ambassador of U.S. companies to senior MAFF officials, and present the myriad productivity improvements U.S. products can provide Cambodia's agriculture sector, an underlying goal was to raise issues of

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corruption that most of the companies have experienced in their efforts to become more involved in the sector.

¶12. (SBU) All seeds, pesticides, and herbicides must be registered with the MAFF before legally entering the Cambodian market. Cargill, Dupont, Fort Dodge, and Monsanto have all reported difficulties in registering their products with MAFF in a transparent manner. Registration is a requirement for distribution of these products. [NOTE: Some of these companies reported that their products have entered Cambodia indirectly through other distribution networks, but many cannot enter formally because of registration issues. END NOTE].

¶13. (SBU) Cargill provides a good example of a pioneering American company that began to engage Cambodia, only to depart quickly upon experiencing the prevailing business environment. Only a few weeks after a glitzy product launch to Cambodian farmers and product distributors for their pig feed, Cargill abruptly withdrew from Cambodia, ostensibly due to the lack of a market. However, the Managing Director of Cargill Vietnam, which also has responsibility for Cambodia, told EconOff with palpable disappointment that in order to register their products with the MAFF, Cargill was asked to deposit funds into the personal account of an MAFF official, a story corroborated by Fort Dodge Animal Health, which had a similar experience when trying to register their vaccines. Fort Dodge lamented that they would already have someone resident in Cambodia if they had not run into corruption barriers.

MAFF Dodges Corruption Questions, Requests Assistance

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¶14. (SBU) When directly confronted with a number of U.S. companies complaining about non-transparency and excessive bureaucracy in the registration process -- with the Ambassador pointing out that Cambodia's agriculture industry is more regulated than Vietnam's or Thailand's -- Secretary of State Chan Tong Yves could say only that Cambodia is making efforts "to improve year-to-year," noting that this year they are working to streamline the registration process for forestry products, from five steps to three steps. He offered a common excuse: the Ministry is slow to register products in part due to lack of technical capacity. Ambassador Rodley quickly volunteered USG assistance in a seminar on technical aspects of product registration, which the MAFF officials welcomed. After the meeting, Fort Dodge noted that other vaccines from Laos, Vietnam, and India were already registered and promoted by MAFF, which led to his rhetorical question how those smaller companies were able to register their products and Fort Dodge, the world's fifth largest vaccine seller with over \$1 billion turnover, is experiencing such difficulties. The Director of MAFF's Animal Production Department, with which Fort Dodge has formerly dealt, said that an exhibition of products would be helpful, a strategy Dupont has followed in cooperation with another MAFF Department (with limited success thus far), but one that Fort Dodge seems keen to follow in a long-term effort formally to enter the market.

#### Plans for Assistance to Address Ag Sector Needs

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¶15. (SBU) Donors, the USG, and the private sector are attempting to work cooperatively to convince the Cambodian Government of the benefits of modernizing their public administration system, which will open the door to the rapid modernization of the agriculture sector. However, more needs to be done. In August 2009, AID will conduct an assessment of Cambodia's agriculture sector. This assessment will inform the design of a four - to five - year agriculture program that will begin implementation by the end of FY ¶2010. Cambodia's agriculture sector is constrained by inter alia, the poor use of fertilizers, limited access to improved technologies and practices, weak irrigation systems and rural roads, limited access to credit, and a lack of research and development. To address these impediments USAID will consider activities that improve access to agricultural inputs, use bio - and agricultural technology, increase agricultural services, improve post-harvest management and technology, and lead to more efficient resource management in order to boost Cambodia's agricultural yields for both domestic consumption and export markets. Investments in improved technical practices as well as assistance with sanitary/phytosanitary measures will help Cambodia compete in the global economy.

¶16. (SBU) COMMENT: It is unsurprising that many Cambodian farmers continue farming in the same manner as their ancient ancestors. Starting from the "year zero" base imposed on the Cambodian people

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by the murderous Khmer Rouge, many modern technologies have since been hindered from entering the market. U.S. companies can provide better products and technologies that can significantly contribute to Cambodia's agricultural productivity and diversification if allowed to participate freely in the market. Post hopes to develop a strategic framework to identify and understand market access problems, points of engagement in the government to address them, and where the Embassy can best use its influence to make inroads.

RODLEY